PURCHASING POWER

AT a time when the dollar price of gold in the world market is fluctuating in dollars instead of cents, it is good to think about the real basis of our money. Gold does not determine the value of the dollar. There has been no change in the United States Treasury price of $35 an ounce since 1934. However, the amount of goods and services that you can buy with one dollar is 54 percent less than it was in 1934.

During this inflationary period it was not worth while to hoard dollars. The chart on page 480 compares the purchasing power of three possible investments. If you had purchased Government "E" bonds in 1941, and sold them today, in spite of the accrued interest for 19 years, you could buy 13 percent less in goods and services than you could in 1941. After calculating the tax on the interest earned, the loss in purchasing power is from 20 to 48 percent, depending on the tax bracket. This investment turns out to be almost as bad as hoarding dollars.

On the other hand, if your dollars were invested in industrial common stocks in 1941, and you sold out now, you could purchase 117 percent more with the money from the stocks than you could in 1941. You would, however, have to have weathered the loss in purchasing power during the 1940's. We have assumed that stocks fluctuated in value with the Dow-Jones Industrial Average. Dividends have not been accounted for, so this is a conservative estimate of the increase in purchasing power.
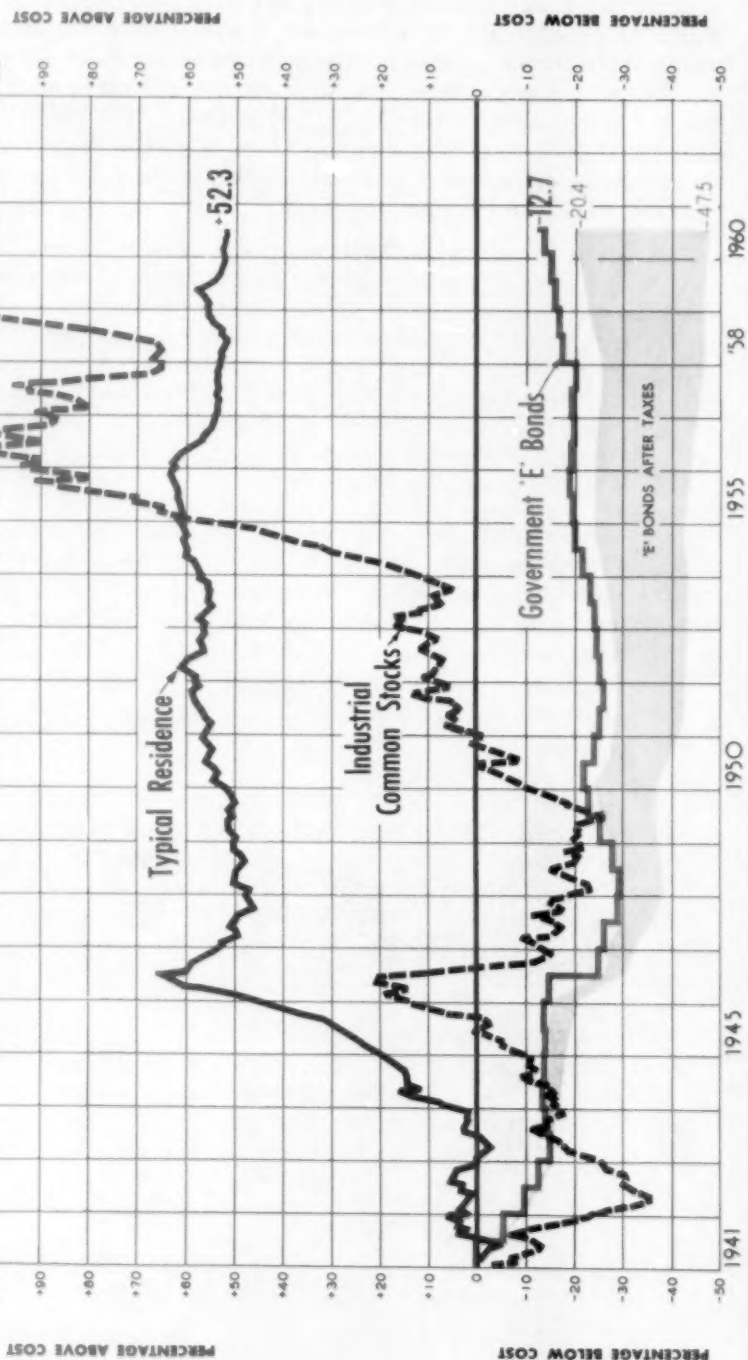
The most stable investment in terms of purchasing power is a single-family residence in a well-maintained neighborhood. Today if you sold the home you purchased in 1941, and the neighborhood is still a good location, you could purchase 52 percent more with the dollars from the house than you could have with the dollars spent on the house in 1941. For the purposes of this illustration, we have assumed that the residence was purchased to be occupied by the owner. The rental value of the house has not been added into the figures.

Both common stock and a house have been excellent hedges against inflation, so long as the stocks have been held beyond 1950, and the house has been held beyond 1944.

A COMPARISON OF
PURCHASING POWER FLUCTUATIONS

IN THE SELLING PRICE OF A TYPICAL RESIDENCE
INDUSTRIAL COMMON STOCKS AND
GOVERNMENT "E" BONDS

© by ROY WENZLICK RESEARCH CORP., 1960

Typical Residence

Industrial
Common Stocks

Government "E" Bonds

"E" BONDS AFTER TAXES

+117.3

+52.3

-12.7

-20.4

-47.5

PERCENTAGE ABOVE COST

PERCENTAGE BELOW COST

PERCENTAGE ABOVE COST

PERCENTAGE BELOW COST
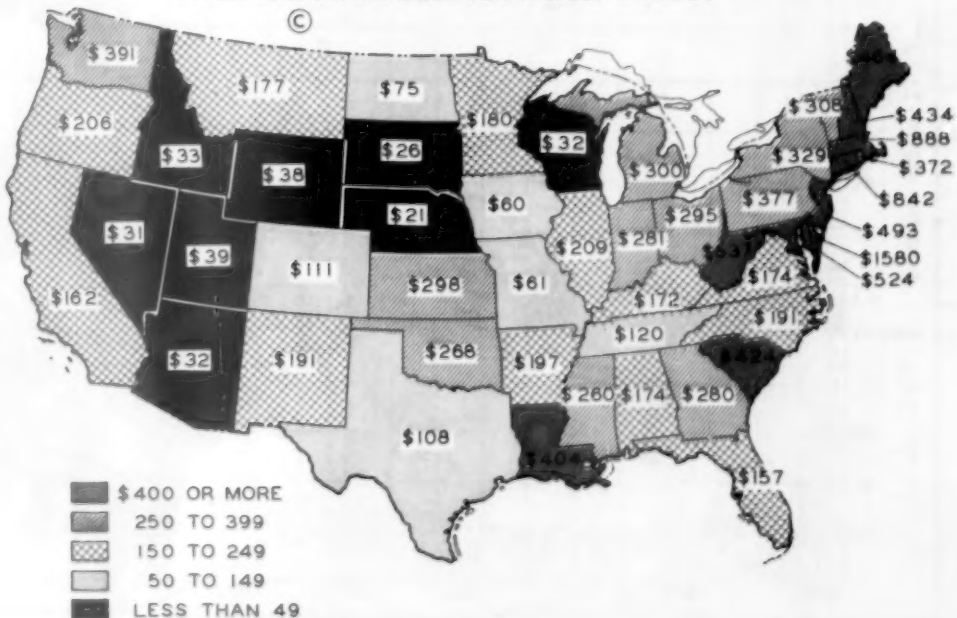
1941   1945   1950   1955   '58   1960

Another hedge against inflation has been farm land. In 1941 farm land was worth an average $31.87 per acre. Today it is worth an average $110.57 per acre. First reducing this for the purchasing power of the dollar, then computing the percentage change in value, we find that farm land today has 71 percent greater purchasing power than it had in 1941. The map on page 485 shows the changes in farm real estate values from July 1959 to July 1960. For the nation farm values increased 1 percent for this period, while consumer prices increased a little more than 1 percent.
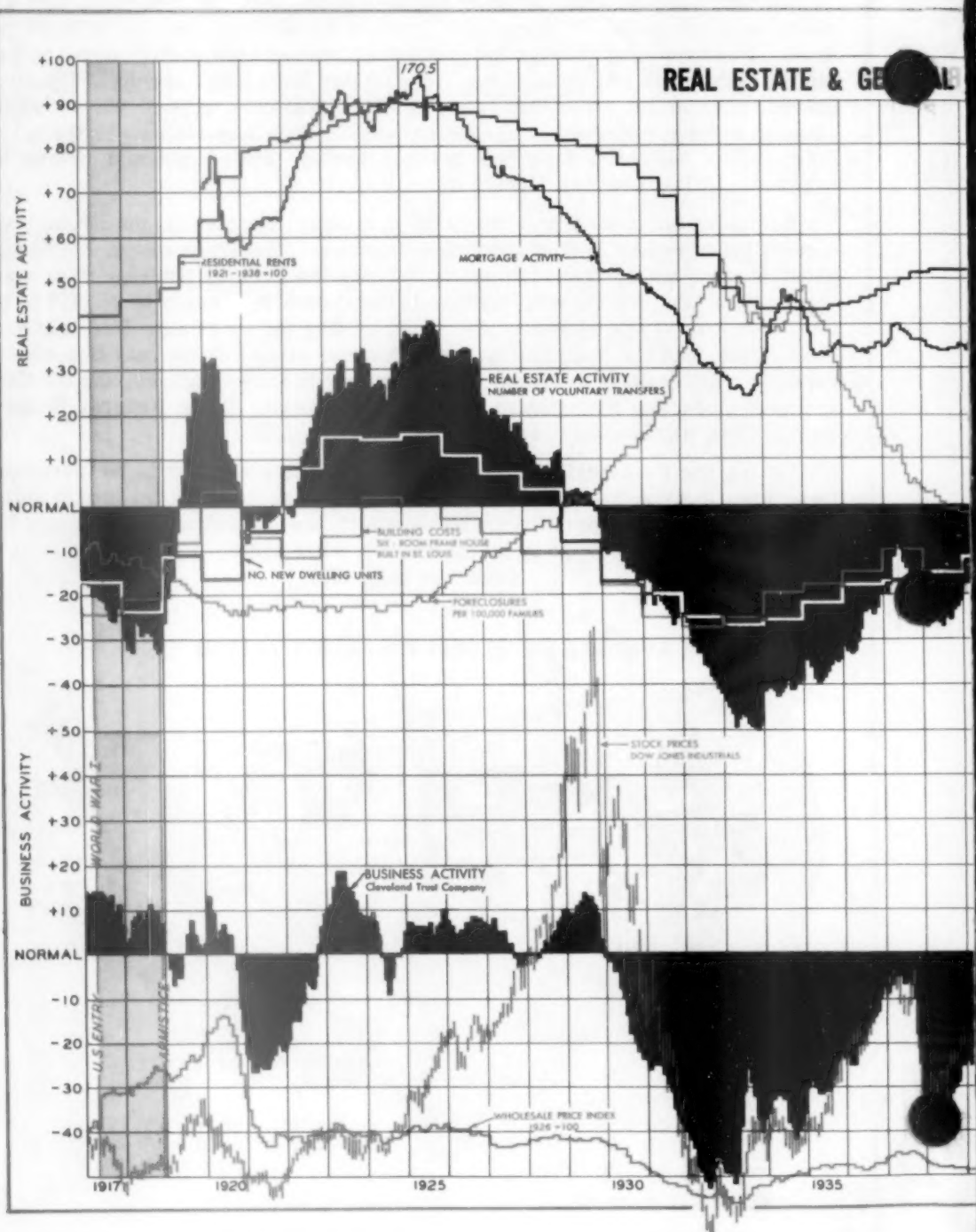
Basically inflation is the result of a greater increase in the amount and circulation of money than of goods and services. The increase can be brought about in many ways, one of which is the way the Federal public debt is managed. By adding the current average Federal debt per family of $5,450 to the total for your State shown below, you can find the average State and Federal public debt for your family. It is not the size, but the way this debt is managed which causes inflation. If the economy is fully employed, and the Government increases its expenditures by selling bonds to the Federal Reserve Banks, then inflation may result.

During the first half of this year building costs seemed to be reversing their upward climb with all other prices. Now the decrease in the cost of building the standard six-room frame house due to lumber and millwork drops has been almost entirely offset by an increase in labor costs.

AVERAGE STATE DEBT PER FAMILY IN 1959

ⓒ

$391
$177
$75
$180
$308
$434
$888
$372
$206
$33
$26
$32
$329
$38
$300
$842
$31
$21
$60
$295
$377
$493
$39
$111
$209
$281
$1580
$162
$298
$61
$174
$524
$172
$32
$191
$268
$197
$120
$191
$108
$260
$174
$280
$404
$157

$400 OR MORE
250 TO 399
150 TO 249
50 TO 149
LESS THAN 49

481

REAL ESTATE & GENERAL

BUSINESS INDICATORS
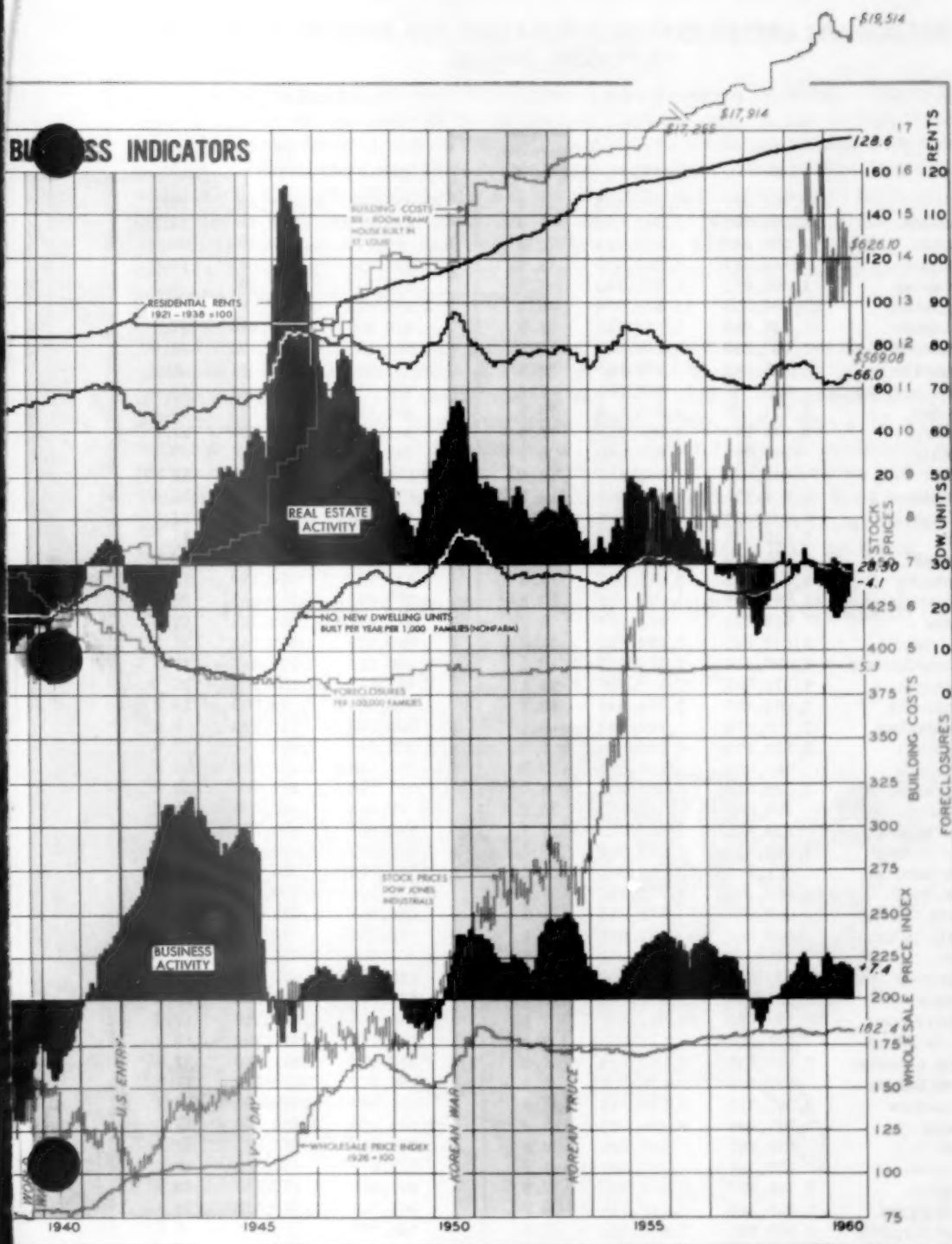
PRELIMINARY UNITED STATES POPULATION AND HOUSING INVENTORY BY STATES, 1950-60

	POPULATION			HOUSING UNITS		
	1950	1960	Percent increase, 1950-60	1950	1960	Percent increase, 1950-60
U. S.	151,325,798	177,874,042	17.5	46,137,076	58,581,841	27.0
Alabama	3,061,743	3,245,806	6.0	843,857	971,816	15.2
Alaska	128,643	224,094	74.2	33,072	65,807	99.0
Arizona	749,587	1,288,433	71.9	240,750	417,055	73.2
Arkansas	1,909,511	1,771,343	-7.2	575,163	587,990	2.2
California	10,586,223	15,506,974	46.5	3,590,660	5,477,197	52.5
Colorado	1,325,089	1,743,516	31.6	436,226	598,445	37.2
Connecticut	2,007,280	2,516,799	25.4	611,162	820,706	34.3
Delaware	318,085	442,891	39.2	97,013	144,431	48.9
Dist. of Columbia	802,178	745,603	-7.1	229,738	262,944	14.4
Florida	2,771,305	4,886,016	76.3	952,131	1,857,672	95.1
Georgia	3,444,578	3,910,817	13.5	966,672	1,175,950	21.6
Hawaii	499,794	620,346	24.1	120,606	165,628	37.3
Idaho	588,637	662,856	12.6	188,328	225,539	19.7
Illinois	8,712,176	10,005,955	14.9	2,671,647	3,286,149	23.0
Indiana	3,934,224	4,633,395	17.8	1,232,314	1,511,571	22.7
Iowa	2,621,073	2,742,753	4.6	811,912	907,151	11.7
Kansas	1,905,299	2,177,822	14.3	625,148	754,777	20.7
Kentucky	2,944,806	3,015,967	2.4	820,141	934,124	13.9
Louisiana	2,683,516	3,233,859	20.5	777,672	983,667	26.5
Maine	913,774	961,967	5.3	311,441	365,783	17.4
Maryland	2,343,001	3,074,860	31.2	689,116	940,642	36.5
Massachusetts	4,690,514	5,115,295	9.1	1,400,185	1,696,448	21.2
Michigan	6,371,766	7,778,220	22.1	1,971,842	2,558,369	29.7
Minnesota	2,982,483	3,391,348	13.7	918,434	1,122,082	22.2
Mississippi	2,178,914	2,165,064	-0.6	609,329	630,222	3.4
Missouri	3,954,653	4,292,982	8.6	1,268,354	1,494,795	17.9
Montana	591,024	669,547	13.3	194,256	234,682	20.8
Nebraska	1,325,510	1,404,556	6.0	417,245	474,786	13.8
Nevada	160,083	282,137	76.2	56,515	102,694	81.7
New Hampshire	533,242	600,782	12.7	190,563	224,268	17.7
New Jersey	4,835,329	6,039,594	24.9	1,501,473	2,006,683	33.6
New Mexico	681,187	943,981	38.6	199,706	284,225	42.3
New York	14,830,192	16,655,836	12.3	4,633,806	5,699,538	23.0
North Carolina	4,061,929	4,531,834	11.6	1,058,367	1,322,790	25.0
North Dakota	619,636	627,209	1.2	175,769	195,125	11.0
Ohio	7,946,627	9,647,079	21.4	2,402,565	3,052,058	27.0
Oklahoma	2,233,351	2,303,408	3.1	715,691	818,266	14.3
Oregon	1,521,341	1,757,691	15.5	524,003	621,240	18.6
Pennsylvania	10,498,012	11,239,301	7.1	3,036,494	3,596,259	18.4
Rhode Island	791,896	841,852	6.3	244,147	287,292	17.7
South Carolina	2,117,027	2,359,234	11.4	557,672	681,566	22.2
South Dakota	652,740	676,738	3.7	194,573	217,089	11.6
Tennessee	3,291,718	3,536,240	7.4	921,837	1,085,347	17.7
Texas	7,711,194	9,488,620	23.0	2,393,828	3,160,298	32.0
Utah	688,862	886,926	28.8	200,554	263,633	31.5
Vermont	377,747	387,291	2.5	121,911	136,566	12.0
Virginia	3,318,680	3,903,555	17.6	901,483	1,167,137	29.5
Washington	2,378,963	2,829,871	19.0	809,701	1,012,653	25.1
West Virginia	2,005,552	1,847,936	-7.9	544,075	575,865	5.8
Wisconsin	3,434,575	3,930,312	14.4	1,055,843	1,291,133	22.3
Wyoming	290,529	327,531	12.7	92,086	113,688	23.5

This increase in cost has not stopped the nation from building. There has been a 27 percent increase in the number of dwelling units in the United States, as shown in the table opposite. Growthmanship can be demonstrated with these figures. Alaska showed a 99 percent increase in the number of dwelling units, while West Virginia showed only a 6 percent increase. The actual increase in both cases, however, was about 32,000 units. The difference in the rate of growth is because Alaska had only 33,000 units in 1950, while West Virginia had 544,000 units. This shows the error in comparing percentage growth rates without a knowledge of the base figures.

As for the future, we are not looking for a recovery in residential construction until after the middle of 1961, in spite of the continued improvement in real estate activity and availability of mortgage money. Although there was a 27 million increase in population from 1950 to 1960, there was a 12 million increase in the number of dwelling units. This was about one additional unit for every 2.2 additional people. In 1950 there were 3.28 persons per unit! This tremendous building of the 1950's has reduced this ratio to 3.04 persons. This, along with the increasing vacancy rate (7.6 percent of rental units are vacant and for rent), indicates that the housing supply is at least adequate.

Percentage Change In Dollar Value of Farmland

JULY 1959 TO JULY 1960
© by ROY WENZLICK RESEARCH CORP., 1960

LEGEND
PERCENTAGE CHANGE

5.0% AND OVER
3.0% TO 4.9%
1.0% TO 2.9%
NO CHANGE
DECREASE
1% OR MORE

1.0% UNITED STATES AVERAGE

ROY WENZLICK INDICATORS OF THE REAL ESTATE MARKET

REAL ESTATE ACTIVITY

		Number of Voluntary Real Estate Transfers per 10,000 Families	% Above or Below Normal	REAL ESTATE SELLING PRICE 1947-49 = 100
S	1959	83.3	+0.4	129.3
O	1959	80.1	-3.5	130.1
N	1959	80.5	-3.0	130.0
D	1959	80.4	-3.1	130.2
Ja	1960	78.2	-5.8	130.4
F	1960	77.6	-6.5	130.8
Mr	1960	73.9	-11.0	130.8
Ap	1960	72.9	-12.2	130.9
My	1960	72.9	-12.2	130.9
Jn	1960	73.8	-11.1	130.9
Jl	1960	75.4	-9.2	131.2
Ag	1960	76.7	-7.6	131.2
S	1960	79.6	-4.1	

CONSTRUCTION ACTIVITY
New Family Accommodations per 10,000 Families by City Size (in thousands)

1,000+	500-1,000	250-500	50-250
17.7	28.1	22.6	18.2
18.1	24.1	20.6	16.7
17.1	23.1	21.7	17.7
20.6	27.8	25.6	20.7
15.4	22.3	16.6	15.2
16.4	18.9	20.1	15.6
12.6	20.0	18.7	13.9
15.5	21.2	19.0	15.7
15.6	23.9	17.7	15.8
15.0	19.9	20.4	16.7

MORTGAGE ACTIVITY

		Number of Mortgages Recorded per 10,000 Families	AVERAGE INTEREST RATE RECORDED MORTGAGES IN 11 MAJOR CITIES OF THE UNITED STATES	RENTS 1921-38 = 100	COST -- TWO-STORY SIX-ROOM FRAME HOUSE (St. Louis)
S	1959	70.9	5.787%	126.5	19,157
O	1959	67.2	5.908	126.7	19,204
N	1959	66.0	5.974	126.9	19,578
D	1959	65.7	6.027	127.2	19,578
Ja	1960	63.0	6.099	127.3	19,607
F	1960	64.0	6.156	127.4	19,609
Mr	1960	63.5	6.154	127.5	19,595
Ap	1960	63.9	6.170	127.7	19,443
My	1960	62.5	6.189	127.9	19,244
Jn	1960	62.9	6.209	128.1	19,243
Jl	1960	64.4	6.124	128.3	19,240
Ag	1960	66.2	6.129	128.5	19,209
S	1960	66.0	6.141	128.6	19,152
O	1960				19,514